

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 IO-13 ISO-00 SP-02 ICA-11 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 DODE-00 PA-01 L-03 H-01
/119 W

-----009515 141050Z /15/61

R 111455Z APR 78
FM AMEMBASSY PRETORIA
TO SECSTATE WASHDC 975
INFO AMEMBASSY MAPUTO
AMEMBASSY LONDON
USMISSION USUN NEW YORK
AMCONSUL CAPE TOWN
AMCONSUL JOHANNESBURG
AMCONSUL DURBAN

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C O R R E C T E D C O P Y (TEXT CORRECTED)

CAPE TOWN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, SF
SUBJECT: SOUTH AFRICA REVALUES ITS GOLD RESERVES

BEGIN UNCLASSIFIED:

SUMMARY: SAG ANNOUNCED THAT FOLLOWING IMF ABOLITION OF
OFFICIAL GOLD PRICE, SOUTH AFRICAN GOLD RESERVES BEING RE-
VALUED TO MARKET RELATED PRICE OF \$163 PER OUNCE. THIS WILL
ADD ABOUT \$1,000 MILLION TO RESERVES IN ACCOUNTING TERMS BUT
MEANS LITTLE REAL CHANGE. AS A RESULT OF THESE CHANGES, IT
ALSO ANNOUNCED THAT GOLD CLAUSE IN SA-MOZAMBIQUE MINeworkERS
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CONVENTION IS TERMINATED. END SUMMARY.

1. MINISTER OF FINANCE HORWOOD ANNOUNCED THAT EFFECTIVE
APRIL 10 SOUTH AFRICA'S GOLD RESERVES WERE BEING RE-
VALUED FROM THE OLD "OFFICIAL" PRICE OF R29.55 (\$33.98)
TO A MARKET RELATED PRICE CURRENTLY SET AT R141.97
(\$163.27). THIS LONG EXPECTED MOVE FOLLOWS CHANGES IN

INTERNATIONAL MONETARY FUND ARTICLES OF AGREEMENT
ABOLISHING OFFICIAL PRICE OF GOLD WHICH CAME INTO EFFECT
APRIL 1. HORWOOD STATED THAT AS RESULT OF THIS CHANGE
RESERVE BANK'S GOLD AND OTHER FOREIGN EXCHANGE WILL
AMOUNT TO ABOUT R1,700 MILLION (\$1,955 MILLION) COM-
PARED TO R634 MILLION AT THE END OF MARCH 1978. IN
FUTURE, RESERVE BANK GOLD HOLDINGS ARE TO BE FIXED AT
LONDON GOLD PRICE OF LAST TEN DAYS MINUS TEN PERCENT.

2. HORWOOD ALSO STATED THAT AS RESULT OF IMF ABOLITION
OF OFFICIAL GOLD PRICE AND SOUTH AFRICA'S REVALUATION,
CLAUSE IN SA-MOZAMBIQUE MINeworkERS CONVENTION RE-
QUIRING PAYMENT OF DEFERRED WAGES TO MOZAMBIKAN
GOVERNMENT AT "OFFICIAL" PRICE FALLS AWAY. MINES WILL
HENCEFORTH RECEIVE THE MARKET PRICE FOR ALL THEIR GOLD
OUTPUT INCLUDING THAT PORTION PAID FOR MOZAMBIKAN MINERS
HORWOOD ADDED. IN RESPONSE TO EMBASSY INQUIRY, DE-
PARTMENT OF FOREIGN AFFAIRS CONFIRMED HORWOOD'S STATE-
MENT MEANT THAT PAYMENTS TO MOZAMBIQUE FOR MINE LABOR WOULD
HENCEFORTH BE MADE AT MARKET PRICE FOR GOLD. FINANCIAL
JOURNALISTS ESTIMATE THAT CHANGE WILL COST MOZAMBIQUE
NEARLY R100 MILLION A YEAR IN FOREIGN EXCHANGE BASED ON
CURRENT 34,000 MOZAMBIKANS EMPLOYED IN MINES.

3. HORWOOD ALSO STATED THAT R1,068 MILLION BOOK
PROFIT ON REVALUATION WOULD BE STERILIZED TO KEEP IT
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FROM INFLUENCING DOMESTIC ECONOMY. THIS WOULD BE DONE
BY DEPOSITING IT IN SPECIAL FUND TO COVER LOSSES BY
RESERVE BANK ON GOVERNMENT FOREIGN EXCHANGE AND FORWARD
CONTRACTS AND TO COVER ANY FUTURE EXCHANGE RATE LOSSES
ON FOREIGN GOVERNMENT LOANS.

4. ADDITIONAL CHANGE ANNOUNCED WAS THAT HENCEFORTH
GOLD MINES WOULD SELL THEIR GOLD TO GOVERNMENT AT
ABOUT MARKET PRICE. IN PAST, MINES RECEIVED IN-
ITIAALLY ONLY THE "OFFICIAL" PRICE AND WERE LATER PAID
DIFFERRNCE OF MARKET PRICE TWHEEN GOLD WAS SOLD.
CHANGE WILL ELIMINATE THIS LAG IN PAYMENTS.

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5. COMMENT: REVALUATION OF GOLD RESERVES HAD BEEN
LONG EXPECTED AND FOLLOWS EXAMPLE SET BY FRANCE AND
ITALY. CHANGE IS BASICALLY BOOKKEEPING EXERCISE AND
DOES NOTHING TO INCREASE REAL VALUE OF RESERVES. IN-
TERNATIONAL CREDITORS HAVE LONG TAKEN INTO ACCOUNT
UNDERVALUING OF GOLD RESERVES IN CALCULATING SOUTH
AFRICA'S TRUE FOREIGN EXCHANGE POSITION. CHANGE DOES,

HOWEVER, SIMPLIFY AND CLARIFY RESERVE POSITION SO THAT
PUBLISHED VALUE OF RESERVES WILL MORE CLOSELY REFLECT
ITS PURCHASING POWER IN TERMS OF IMPORTS. NEW LEVEL OF
FOREIGN EXCHANGE RESERVES REPRESENTS ABOUT THREE MONTHS
IMPORTS AT CURRENT LEVELS.

6. WE ASSUME ELIMINATION OF GOLD CLAUSE IN SA-
MOZAMBIQUE MINEWORKERS CONVENTION WAS MAIN TOPIC OF
DISCUSSION WHEN HIGH LEVEL SAG DELEGATION VISITED
MAPUTO AT END OF MARCH (MAPUTO 417) PARTICULARLY IN
LIGHT OF HEAVY SAG REPRESENTATION ON FINANCIAL SIDE.
SAG HAS BEEN UNDER PRESSURE FROM MINES AND OTHER DO-
MESTIC GROUPS TO ELIMINATE EXTRA GOLD PAYMENTS FOR
SOME TIME. IN LIGHT OF SAG'S APPARENT INTEREST IN
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KEEPING ITS RELATIONS WITH MOZAMBIQUE ON EVEN KEEL HOWEVER,
IT IS POSSIBLE THAT SAG OFFERED SOME SORT OF COMPENSA-
TION IN ANOTHER AREA. IN TERMS OF ACTUAL INCOME TO
MOZAMBICAN MINERS AS OPPOSED TO GPRM, ELIMINATION OF
GOLD CLAUSE MAY HAVE A BENEFICIAL EFFECT AS IT REMOVES
STRONG DISINCENTIVE MINES HAD TO RECRUITING MOZAM-
BICANS. NUMBER OF MOZAMBICAN ON MINES IS NOW ONLY
ABOUT ONE-THIRD OF 1975 LEVEL IN SPITE OF FACT
MOZAMBICANS ARE HIGHLY REGARDED ON MINES. END COMMENT.
BOWDLER

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Message Attributes

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Draft Date: 11 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
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